

Message Text

LIMITED OFFICIAL USE

PAGE 01 HELSIN 00626 01 OF 02 201526Z

47

ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 EURE-00 AID-05 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-01 CEA-01 L-02 TAR-01 FEAE-00 PA-01 PRS-01 USIA-06

/092 W

----- 017509

P R 201408Z MAR 75

FM AMEMBASSY HELSINKI

TO SECSTATE WASHDC PRIORITY 8439

INFO USMISSION GENEVA

USDEL MTN GENEVA

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMEMBASSY COPENHAGEN

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

AMEMBASSY LONDON

AMEMBASSY BONN

AMEMBASSY MOSCOW

LIMITED OFFICIAL USE SECTION 1 OF 2 HELSINKI 626

E.O. 11652: N/A

TAGS: ECON, ETRD, FI

SUBJECT: BACKGROUND OF FINNISH IMPORT-INHIBITING TRADE
RESTRICTIONS

REF: (A) HELSINKI 581 (B) HELSINKI 570 (C) HELSINKI 550 (D) OECD
PARIS 6722 (E) HELSINKI 1305, JULY 2, 1974 (NOTAL)

1. SUMMARY. THE NEW FINNISH TRADE RESTRICTIONS WERE IMPOSED
AGAINST BACKGROUND OF RECORD TRADE DEFICIT OF 1974 AND
JANUARY-FEBRUARY TRADE DATA INDICATING SITUATION WOULD BE MUCH
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 HELSIN 00626 01 OF 02 201526Z

WORSE IN 1975 IF NOTHING DONE. DEPLETED FOREIGN EXCHANGE

RESERVES, EXTREME DIFFICULTY OBTAINING LONG TERM CREDIT ABROAD, AND A PREDICTED CURRENT ACCOUNT DEFICIT FOR 1974 ALMOST AS BAD AS THE TRADE DEFICIT, PUT HEAVY PRESSURE ON GOVERNMENT TO ACT. END SUMMARY.

2. IT HAD BEEN APPARENT FOR MONTHS THAT SOMETHING HAD TO BE DONE ABOUT FINLAND'S ADVERSE AND DETERIORATING TRADE BALANCE. MEASURES ANNOUNCED IN JULY, 1974 (REF E) HAD PROVED TO BE LARGELY WINDOW-DRESSING WITHOUT DISCERNIBLE EFFECT ON THE ADVERSE TRADE GAP, WHICH FOR WHOLE OF 1974 WAS ALMOST FMK. 5 BILLION (4,989 MILLION). THIS WAS ONE AND A HALF TIMES GREATER THAN 1973 TRADE DEFICIT OF ALMOST FMK. 2 BILLION (1,994 MILLION). IN 1972 IMPORTS EXCEEDED EXPORTS BY FMK. 1,025; IN 1971 BY FMK. 1,837; IN 1970 BY FMK. 1,384. THESE SMALLER DEFICITS WERE ACCOMPANIED BY INCREASED FOREIGN INDEBTEDNESS, AS WAS THE 1974 DEFICIT (WITH HELP FROM THE FINNISH-SOVIET SWING CREDIT ARRANGEMENT). HOWEVER BANK OF FINLAND AND GOVERNMENT MINISTERS SEVERAL MONTHS AGO BEGAN TO WARN THAT TRADE DEFICITS OF SUCH MAGNITUDE COULD NOT BE MET BY INCREASING FOREIGN INDEBTEDNESS INDEFINITELY. THEY ALSO POINTED OUT THAT FOREIGN BORROWING WAS BECOMING MORE DIFFICULT AND MORE EXPENSIVE AND THAT SERVICING THE FOREIGN DEBT WAS ITSELF BECOMING A SIGNIFICANT FOREIGN EXCHANGE BURDEN.

3. RUMORS BEGAN TO CIRCULATE IN FEBRUARY THAT GOVERNMENT MIGHT ANNOUNCE DEVALUATION OF FINNMARK. THIS ACTION, WHILE UNDOUBTEDLY SERIOUSLY CONSIDERED, WAS RULED OUT PROBABLY BECAUSE OF POLITICAL PROBLEM OF SUCH A SEVERE STEP JUST AFTER CENTRALIZED WAGE AGREEMENT EXTENDED. DECISION TO ANNOUNCE INSTEAD PROGRAM OF IMPORT DEPOSITS, BOLSTERED BY VERY TIGHT CREDIT POLICY, WAS MADE URGENT BY JANUARY-FEBRUARY TRADE RESULTS, WHICH WERE MADE PUBLIC MARCH 10. (OVERALL TRADE DEFICIT FOR JANUARY-FEBRUARY WAS FMK. 1.73 BILLION COMPARED TO FMK. 0.82 BILLION FIRST TWO MONTHS OF 1974. SIMPLE PROJECTION OF FIRST TWO MONTHS TRADE RESULTS INDICATED TRADE DEFICIT OF FMK. 10.3 BILLION FOR 1975.) BEGIN LOU: WE DO NOT RULE OUT POSSIBILITY THAT BANK OF FINLAND, BY CHANGING ITS LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 HELSIN 00626 01 OF 02 201526Z

INTERNAL RULES FOR CALCULATING EXCHANGE RATE OF FINNMARK, MAY ALLOW SLOW DE FACTO DEVALUATION WITHOUT PUBLIC ANNOUNCEMENT. END LOU

4. BREAKDOWN OF 1974 TRADE STATISTICS BY MAJOR COUNTRY AND BY SOME COMMODITY DETAIL SHOW THAT WHILE THE PETROLEUM PRICE INCREASE WHICH BEGAN TO HIT FINLAND, IN COMMON WITH MOST COUNTRIES, IN 1973, AND WITH FULL FORCE IN

JANUARY, 1974, WAS AN IMPORTANT FACTOR IN FINLAND'S SHARPLY INCREASED TRADE DEFICIT IN 1974, IT WAS BY NO MEANS THE ONLY FACTOR. TOTAL COST OF IMPORTED CRUDE OIL, REFINED PETROLEUM PRODUCTS AND ELECTRIC POWER (A RELATIVELY NEGLIGIBLE IMPORT) IN 1974 WAS FMK. 5.4 BILLION, UP FROM ONLY FMK. 2.0 BILLION IN 1973. THE INCREASED COST WAS DUE ALMOST ENTIRELY TO PRICE INCREASES AS VOLUME WAS ONLY SLIGHTLY UP. THE FMK. 3.4 BILLION INCREASE IN THE COST OF OIL IN 1974 AS COMPARED TO 1973 IS LARGER THAN THE ALREADY MENTIONED 3.0 BILLION INCREASE IN THE TRADE DEFICIT. THE ENLARGEMENT OF FINLAND'S TRADE DEFICIT IN 1974 CAN THEREFORE WITH SOME JUSTICE BE BLAMED LARGELY ON INCREASE OF WORLD OIL PRICES.

5. DESPITE ADVERSE EFFECTS OF OIL PRICE INCREASES ON FINLAND'S TRADE BALANCE WITH OIL-SUPPLYING COUNTRIES, NOTABLY USSR, FINLAND'S LARGEST TRADE DEFICIT WITH ANY COUNTRY IN 1974 WAS WITH NON-OIL-SUPPLIER WEST GERMANY, FROM WHICH IMPORTS OF FMK. 3,759 MILLION AND EXPORTS OF FMK. 1,738 RESULTED IN DEFICIT OF FMK. 2,029 MILLION. IMPORTS FROM SWEDEN OF FMK. 4,098 MILLION, WITH EXPORTS REACHING FMK. 3,306, LED TO A DEFICIT OF FMK. 792 MILLION. IMPORTS FROM USSR AT FMK. 4,692 MILLION (18.3 PERCENT OF FINLAND'S TOTAL IMPORTS AND THE HIGHEST FROM ANY ONE COUNTRY) WERE NOT MATCHED BY FINNISH EXPORTS, WHICH TOTALLED FMK. 2,857 MILLION, LEAVING A TRADE DEFICIT OF FMK. 1,835 MILLION. (USSR EARLY IN 1974 AGREED TO GIVE FINLAND TIME TO BRING THEIR TRADE BACK INTO BALANCE BY INCREASING EXPORTS. WHILE THIS IS EXPECTED TO TAKE UNTIL 1976 AT LEAST, BY YEAR-END FINLAND'S BALANCE OF PAYMENTS SITUATION VIS-A-VIS USSR WAS ABOUT IN BALANCE, MAINLY BECAUSE OF ADVANCE USSR PAYMENT FOR SHIPS AND ON MAJOR PROJECTS AS WELL AS FOR LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 HELSIN 00626 01 OF 02 201526Z

FINNISH SERVICES, NONE OF WHICH APPEAR IN TRADE ACCOUNT.) FINNISH IMPORTS FROM THE U.S. WERE VALUED AT FMK. 1,299 MILLION, WHILE EXPORTS THERE REACHED FMK. 786 MILLION, FOR A DEFICIT OF FMK. 513 MILLION. OF ITS MAJOR TRADE PARTNERS, IT WAS ONLY IN RESPECT TO THE UK THAT FINLAND MANAGED A TRADE SURPLUS, OF FMK. 1,713 MILLION RESULTING FROM IMPORTS FROM THE UK OF FMK. 2,190 MILLION AND EXPORTS THERE OF FMK. 3,903 MILLION.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 HELSIN 00626 02 OF 02 201608Z

47

ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 EURE-00 AID-05 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-01 CEA-01 L-02 TAR-01 FEAE-00 PA-01 PRS-01 USIA-06

/092 W

----- 018264

P R 201408Z MAR 75

FM AMEMBASSY HELSINKI

TO SECSTATE WASHDC PRIORITY 8440

INFO USMISSION GENEVA

USDEL MTN GENEVA

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMEMBASSY COPENHAGEN

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

AMEMBASSY LONDON

AMEMBASSY BONN

AMEMBASSY MOSCOW

LIMITED OFFICIAL USE SECTION 2 OF 2 HELSINKI 626

6. THESE INCREASING TRADE DEFICITS HAVE COME AT A BAD TIME FOR FINLAND, SINCE THE COST AND AVAILABILITY OF LONG-TERM CAPITAL ON THE WORLD MARKETS RESTRICTS FINLAND'S OPPORTUNITY TO PURSUE ITS TRADITIONAL POLICY OF IMPORTING CAPITAL TO OFFSET THE PERENNIAL CURRENT ACCOUNT DEFICITS, TO WHICH THE DEFICITS ON VISIBLE TRADE ACCOUNT ARE THE MAJOR CONTRIBUTOR. THE NET CURRENT AND LONG-TERM PAYMENTS ACCOUNT WAS IN DEFICIT ONLY IN 1967 (-5 MILLION FMK.) AND 1970 (-675 MILLION FMK), PRIOR TO THE CURRENT PROBLEM -- 1973 DEFICIT OF 1,068 MILLION FMK. AND A MONUMENTAL DEFICIT OF FMK. 3,104 MILLION FOR THE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 HELSIN 00626 02 OF 02 201608Z

FIRST NINE MONTHS OF 1974 (THE CURRENT ACCOUNT DEFICIT

FOR ALL OF 1974 WILL REACH AN ESTIMATED FMK. 4,500 MILLION). DEBT SERVICE GREW FROM 8.9 PERCENT OF CURRENT ACCOUNT RECEIPTS IN 1969 TO APPROXIMATELY 11 PERCENT IN 1973 AND THE TOTAL FOREIGN DEBT WAS ABOVE 15 PERCENT OF GDP IN 1973, SO THE PROSPECTS FOR CONTINUED DEFICIT FINANCING WERE NOT OVERLY BRIGHT EVEN BEFORE THE DETERIORATION OF TRADE ACCOUNT.

7. THE CENTRAL BANK'S RESERVES HAVE BEEN USED, PROBABLY MORE THAN WAS DESIRED, IN LIEU OF NET CAPITAL IMPORTS TO BALANCE THE ACCOUNTS. THE RESERVES MUST SUPPORT A TOTAL FOREIGN DEBT, AS OF DECEMBER 31, 1974, OF FMK. 11,838 MILLION (1,140 MILLION OF GOVERNMENT, AND 10,683 OF PRIVATE DEBT, INCLUDING THAT OF COMMERCIAL BANKS AND STATE-OWNED COMPANIES), IN ADDITION TO THE CURRENT ACCOUNT DEFICITS. FINLAND HAS DRAWN HEAVILY ON ITS CONVERTIBLE CURRENCY RESERVES WHICH STOOD AT FMK. 1,354 MILLION ON DECEMBER 31, 1973, AT FMK. 1,335 MILLION ON JUNE 30, 1974, BUT WERE DOWN TO FMK. 785 MILLION ON NOVEMBER 30, 1974 AND HAD DECLINED ALL THE WAY TO FMK. 92 MILLION ON JANUARY 31, 1975. THE BANK OF FINLAND USES A "TOTAL RESERVES" FIGURE WHICH HAS USUALLY BEEN LOWER THAN THE "TOTAL CONVERTIBLE RESERVES" BUT IN THE PAST TWO MONTHS HAS BEEN HIGHER, REFLECTING HOLDINGS OF NON-CONVERTIBLE ("OTHER CURRENCIES" IN BANK TERMINOLOGY) CURRENCIES. THESE REPRESENT NET BALANCES IN FINLAND'S FAVOR IN THE SIX BILATERAL PAYMENTS ARRANGEMENTS IN OPERATION WITH THE PEOPLES REPUBLIC OF CHINA AND THE CEMA COUNTRIES (EXCLUDING POLAND AND CZECHOSLOVAKIA, WITH WHICH THE DOLLAR IS USED). ADVANCE PAYMENTS BY THE USSR ON MAJOR ORDERS, PARTICULARLY FOR SHIPS AND THE NORILSK PROJECT HAVE ARTIFICIALLY SWOLLEN THESE HOLDINGS, DESPITE ADVERSE TRADE BALANCES WITH MOST OF THESE COUNTRIES, ESPECIALLY THE USSR. NET CONVERTIBLE RESERVES OF FINLAND AS OF JANUARY 31, 1975 WERE: GOLD, 121 MILLION FMK; IMF GOLD TRANCHE 268 MILLION FMK; SDR 286 MILLION FMK; AND CONVERTIBLE CURRENCIES 92 MILLION FMK; FOR A TOTAL OF 767 MILLION FMK. IN ADDITION TO INTERNATIONAL INSTITUTIONAL SOURCES OF ASSISTANCE, THE BANK OF FINLAND HAS ARRANGED STANDBY COMMERCIAL CREDITS OF 500 MILLION DOLLARS (1,750 MILLION FMK.) WITH LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 HELSIN 00626 02 OF 02 201608Z

A CONSORTIUM OF FOREIGN BANKS. HOWEVER, THE GOVERNMENT HAS REPEATEDLY USED THE AVAILABILITY OF THESE CREDITS AS A CONFIDENCE-BUILDING MEASURE, AND FOR THAT REASON, AND THE COST, THESE CREDITS WILL BE USED MOST RELUCTANTLY. AUSTAD

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC STABILITY, FOREIGN TRADE, ECONOMIC PROGRAMS, IMPORT CONTROLS, BALANCE OF PAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 20 MAR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975HELSIN00626
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750097-0923
From: HELSINKI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750333/aaaabdlm.tel
Line Count: 274
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 HELSINKI 581, 75 HELSINKI 570, 75 HELSINKI 550
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 16 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <16 APR 2003 by ShawDG>; APPROVED <17 APR 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BACKGROUND OF FINNISH IMPORT-INHIBITING TRADE RESTRICTIONS
TAGS: ECON, ETRD, FI
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006